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FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC PRIORITY 0204

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY

RUCNCIS/CIS COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

RUEHAK/AMEMBASSY ANKARA PRIORITY 3335

RUEHBJ/AMEMBASSY BEIJING PRIORITY 1151

RUEHKO/AMEMBASSY TOKYO PRIORITY 1019

RUEHIT/AMCONSUL ISTANBUL PRIORITY 1588

RHMFIUU/CDR USCENTCOM MACDILL AFB FL PRIORITY

RUEHVEN/USMISSION USOSCE PRIORITY 2180

RUEAAIA/CIA WASHDC PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RUEKJCS/SECDEF WASHDC PRIORITY

RUEKJCS/JOINT STAFF WASHDC PRIORITY

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SIPDIS

SENSITIVE

SIPDIS

STATE FOR SCA/CEN, EUR/UMB, EEB

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SUBJECT: TURKMENISTAN: UKRAINE STUMBLES AS IT SEEKS TO RE-ENGINEER THE BILATERAL RELATIONSHIP

REF: 07 ASHGABAT 1186

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: Ukraine's representation in Turkmenistan is continuing to have a difficult time reviving its bilateral diplomatic and business relationship. Ukrainian diplomats are showing deep interest in the frequent arrivals of various U.S. official delegations, which have incited both admiration and a modicum of envy that their own relationship with Turkmenistan's government is so stagnant. They are also watching Turkmenistan's energy export considerations closely, and want to portray their own energy goals here as preferable to those of competing Turkmen gas consumers. They want to have a close bilateral relationship with Turkmenistan based on both energy and business interests, but there is a lot of competition, and no progress has been made in resolving old problems. END SUMMARY.

WHAT'S THE U.S. GOT THAT UKRAINE HASN'T GOT?

¶3. (SBU) Ukrainian First Secretary Igor Roman asked to meet January 25 to discuss a variety of issues. Ukrainian diplomats are clearly both fascinated and curious about the frequent visits of U.S. delegations to Turkmenistan, and view these visits as a sign of growing U.S. influence here. In contrast, there appears to be a continuous ebb of Ukrainian influence. According to Roman, Ukraine still is unable to resolve issues related to several old construction deals that were beset with serious problems several years ago (reftel). In addition, it has been difficult to resolve problems associated with attempts to establish direct flights between Ashgabat and Kyiv, something Ukraine has been proposing for several years. These persistent issues, in turn, Roman said, are holding back development of the energy relationship between the two countries, which has the potential to be win-win for both countries. He said a Ukrainian delegation is planning to come to Turkmenistan the week of February 18, when delegation members would have an opportunity to participate in Turkmenistan's Flag Day celebrations. He said the goal will be to court Turkmenistan's top leadership and

try to mend fences.

PROMOTING THE NOTION OF "WHITE STREAM" ANYWAY

¶4. (SBU) In light of press stories that had recently broken regarding Prime Minister Yulia Tymoshenko's public statements on a possible White Stream gas pipeline, Roman commented briefly on Ukraine's proposal to construct a pipeline that would continue from the proposed Trans-Caspian Pipeline (TCP), transit Azerbaijan and Georgia, cross the Black Sea, to enter Ukraine's existent gas transit system. He said their plan offered a cheaper alternative to proposed transit through Turkey and would also be easier to build. (NOTE: Tymoshenko's comments on this proposal, made during her visit to Brussels, were received coldly in Turkmenistan, where the foreign ministry released a statement tartly noting Ukraine had not yet broached the subject in Ashgabat of using Turkmenistan's gas. END NOTE.)

¶5. (SBU) Turkish Ambassador Hakkı Akil recently told the Charge that RosUkrEnergo, the intermediary transit company, buys Turkmen gas from Gazprom at the Turkmen border for a low price and transits it through Russia. Gazprom did not need to work through RosUkrEnergo but chose to do so because of the "(unspecified) major political figures" behind the company. He said RosUkrEnergo had shady affiliations, including possible part ownership by international crime figure Semyon Mogilevich and several Ukrainian and Russian oligarchs. According to press and Embassy Moscow reporting, Mogilevich was arrested in Moscow on tax-evasion charges the first week of February, possibly because Ukrainian Prime Minister Tymoshenko was threatening to expose details of the intermediary company, which she has claimed sells

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Turkmenistan's gas to Ukraine for an unnecessarily inflated price.

"UKRAINE COULD BE TURKMENISTAN'S BEST PARTNER"

¶6. (SBU) Roman suggested the Chinese and the Iranians will never be the export partners for Turkmenistan that Ukraine could be. He was surprised to hear that Post was working to confirm a Chinese press report that claimed the Beijing had agreed to pay the highest price yet recorded for Turkmen gas.

(NOTE: A Chinese business journal reported on January 21 that China had agreed to pay \$195 per thousand cubic meters (tcm) for Turkmen gas, once the Turkmen-Chinese pipeline is completed in 2009. However, the report also indicated that this price would include a \$50 per tcm transit fee, which may actually be the fee payable to the transit countries beyond Turkmenistan. Turkmenistan's press has not reported the price upon which the two countries agreed. END NOTE.)

¶7. (SBU) The Chinese deal makes no economic sense for either side, he asserted, and the Chinese would only be using the gas for their industry anyway (sic). Further, he said, it is becoming obvious that the Iranians are bad business partners, and the recent fallout with Iran may be teaching Turkmenistan that it can pick and choose its customers. Ukraine is worried, however, about whether Turkmenistan will have the future output that all these consumers need. He also said he had read that Turkmen oil and gas production had increased by only 9% in 2007, in spite of the fact that Turkmenistan's government had publicly set a goal in March 2007 of increasing it by 20%. This statistic had Ukrainian officials wondering if Turkmenistan would be able to meet all its gas deal obligations.

¶8. (SBU) COMMENT: The Ukrainians say they have much to offer the Turkmen in terms of business, construction, military, and energy expertise; but until the old issues are resolved, Turkmenistan is likely to continue to give them short shrift. Turkmenistan's government appears unconvinced that Ukraine is a reliable partner worthy of consideration. Perhaps more than anything else, the friction over botched

construction contracts continues, and the Turkmen have long
and precise memories. END COMMENT.
HOAGLAND